

Renewable Energy

Navigating Rising Costs Amid Elevated Orderbook

Highlights

- 4Q25 results will remain robust on the back of elevated orderbook and healthy margins. Beyond that, we expect share price to trade sideways in 2Q26 given rising solar PV prices (11 cents/kwh vs 9 cents/kwh a year ago) and slower-than-expected residential rooftop take up under the ATAP programme. In the longer run, positive regulatory outlook – under NeTR – will continue to drive sector performance. Maintain OVERWEIGHT. We prefer large cap Tenaga and Pekat, which is focused on driving a profitable business in solar and manufacturing of switchgear (benefiting from higher capex spent by Tenaga).
- In the near term, top-line will be supported by healthy contracts for LSS5 and LSS5+ EPCC works. However, rising solar PV and battery prices will have an adverse impact on near term margins, despite growing profitability. China aims to eliminate value added tax (VAT) export rebates for solar PV products from 1 Apr 26. We expect solar PV prices to trend higher to USD0.13/W by 2Q26.
- The silver lining is RE players have foreseen the higher costs and positioned to either move contracts to cost-plus-basis or locking in prices for the next couple of months. A stronger ringgit also provide relief against the rising cost.

Analysis

- China to abolish export tax rebates for solar PV products.** The Ministry of Finance and the State Taxation Administration of China recently announced that VAT export tax rebates for photovoltaic (PV) products will be cancelled (from 9%), while rebates for battery products will also be reduced from 9% to 6%, effective 1 Apr 26. Additionally, the VAT tax export rebates for battery products will be completely abolished effective 1 Jan 27.
- Gradual increase in solar module prices.** Solar module prices are expected to trend higher to around USD0.13/W by 2Q26, though persistent supply overcapacity and subdued domestic demand plaguing China's solar industry may offer some relief from the momentum. A previous rebate cut in Dec 24 (from 13% to 9%) did not reflect any sustained uplift in solar module prices, with excess capacity and aggressive tendering continuing to dominate pricing dynamics. However, the current rebate removal (9% cut) strengthens suppliers' incentives to reprice contracts and lift pricing.
- Malaysian EPCC players well-equipped to manage module price hikes.** Our channel checks indicate that engineering, procurement, construction and commissioning (EPCC) players have been proactive in managing solar module price volatility through strategic contract and tendering frameworks, as well as cost pass-through agreements. Most industry participants hold sufficient inventory for ongoing projects. This allows them to mitigate the impact of any price uplift without compressing margins, should module prices trade within a manageable range (USD0.08-USD0.12/W).

Peer Comparison

Company	Ticker	Rec	22 Jan 26	Price	Cap	PE		EV/EBITDA		Dividend Yield	
			(RM)	(RM)	(RMm)	2025F/2026F	2026F/2027F	2025F/2026F	2026F/2027F	2025F/2026F	2026F/2027F
						(x)	(x)	(x)	(x)	(%)	(%)
Malakoff Corp	MLK MK	HOLD	0.81	0.90	3,934	24.3	15.1	5.1	4.6	4.3	5.6
Tenaga	TNB MK	BUY	13.86	16.30	80,792	18.1	17.0	5.6	5.3	3.7	3.8
Gas Malaysia	GMB MK	HOLD	4.41	4.25	5,662	14.2	13.3	8.4	7.8	5.6	5.8
Renewable Energy											
Pekat Group	PEKAT MK	BUY	1.59	2.00	1,123	24.4	19.8	8.6	5.8	1.3	1.3
Samaiden Group	SAMAIKEN MK	N.R.	1.38	n.a.	691	28.2*	22.3**	16.1*	12.8**	1.2*	1.2**
Solarvest Holdings	SOLAR MK	N.R.	3.12	n.a.	2,655	32.7*	24.6**	21.2*	16.8**	0.0*	0.0**
Sunview Group	SUNVIEW MK	N.R.	0.38	n.a.	216	23.8*	19.0**	10.0*	9.0*	0.0*	0.0**

* data for 2026F; **data for 2027F
Source: Bloomberg, UOB Kay Hian

OVERWEIGHT
(Maintained)

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Sector Picks

Company	Rec	Target Price (RM)	EV/EBITDA (x)	Div Yield (%)
Tenaga	BUY	16.30	5.3	3.8
Pekat Group	BUY	2.00	5.8	1.3

Source: Bloomberg, UOB Kay Hian

RE Sector 2025 Share Price Performance Relative to KLCI



Source: Bloomberg, UOB Kay Hian

Sector PE Band



Source: Bloomberg, UOB Kay Hian

- **Escalating project cost may delay large scale solar projects.** We expect upcoming large scale solar projects, such as the Corporate Renewable Energy Supply Scheme (CRESS) and LSS6, to face delays in the signing of power purchase agreements (PPAs) as project costs are expected to rise substantially (a USD0.01 price hike reflects an additional RM4m cost increase for a 100MW project). That said, there is a fair chance that LSS5 and LSS5+ are expected to proceed without substantial adverse impact, as we understand that tender pricing had incorporated higher module cost assumptions of around USD0.12-0.13/W. Further, a strong ringgit will partly cushion the impact of the 9% VAT rebate removal from China.
- **BESS prices carry an upward bias.** Beyond the 3% reduction in BESS VAT export tax rebate, rising upstream material costs (lithium) serve as a catalyst for BESS suppliers to seek higher ASPs in the market. However, intense competition across the BESS supply chain is likely to keep prices under pressure in the near term, with a gradual uplift likely only from 2H26 onwards.

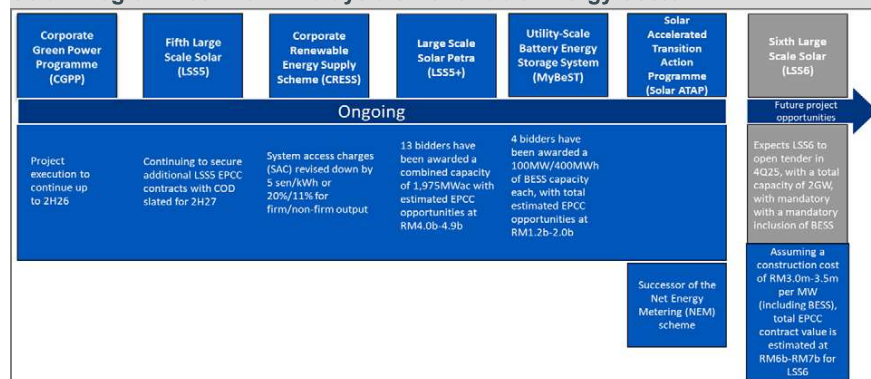
Valuation/Recommendation

- **Maintain OVERWEIGHT; elevated orderbook driven by 6-7GW of solar plant-ups.** We expect total solar PV capacity to exceed 6.5GW over 2026-27 as the government calls for tenders for the LSS6 and awards the inaugural MyBeST programme. Assuming a construction cost of RM2.0m-3.5m per MW, total EPCC replenishment opportunities are estimated at a staggering RM13b-23b in the next five years. **We reiterate OVERWEIGHT on the sector. Our sector top picks are Tenaga and Pekat Group.**

Sector Catalyst/Risk

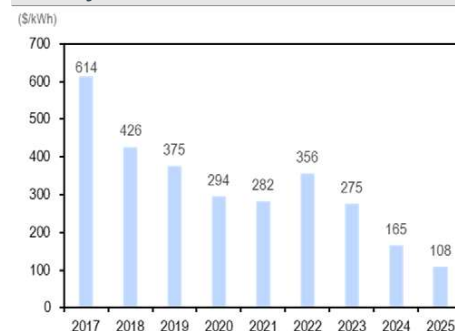
- **Higher threshold for mandatory BESS and standby charges under SELCO scheme.** Effective 1 Jan 26, under the self-consumption (SELCO) scheme, only solar PV installations with capacities of exceeding 1MWac (previously 1MWp) will be required to install a mandatory battery energy storage system (BESS) and will be subject to a monthly standby charge of RM12/kWp. The BESS is required to carry a minimum of one hour full-load output of the solar PV system. We maintain a neutral view on this revision, as industry players continue to flag concerns regarding the high upfront cost of BESS coupled with the burdening monthly standby charges, which would still result in the payback period exceeding five years.
- **LSS6 call for tender may come as early as Feb 26.** We believe EC would initiate the tender exercise for the LSS6 programme by 1Q26, with an estimated allocation of 2GW. Solar installations under the flagship programme are likely to be coupled with a mandatory inclusion of BESS. Assuming a construction cost of RM3.0m-3.5m per MW (including BESS), total engineering, procurement, construction and commissioning (EPCC) contract value is estimated at RM6b-7b for LSS6.

Solar Programmes Within Malaysia's Renewable Energy Sector



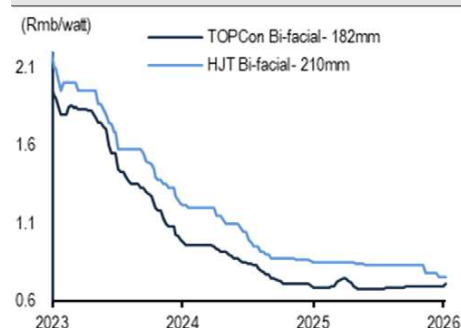
Source: UOB Kay Hian

Turnkey BESS Historical Price



Source: BNEF, UOB Kay Hian

Solar Module Prices



Source: Infolink, UOB Kay Hian

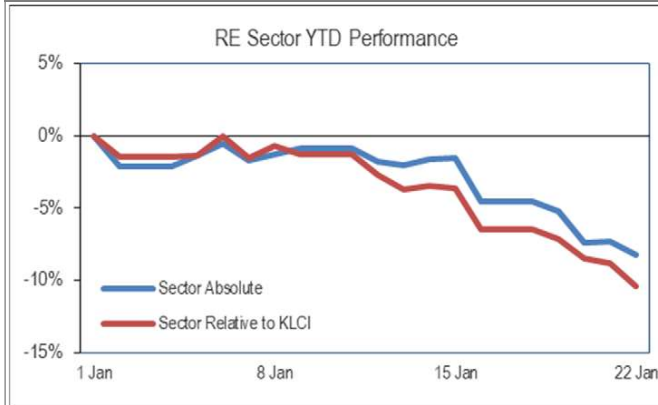
Solar And BESS Programmes

Programmes	Estimated Contract Value	Timeline
LSS5	RM4b-5b (1,780MW)	- Financial close expected in 3Q-4Q25 - Construction to begin in 2026 - Commercial operation date slated for 2H27
LSS5+	RM4b-5b (1,975MW)	- EPCC jobs expected to be awarded in 4Q25/1Q26 - Financial close expected in 1H26 - Construction to begin in 2H26 - Commercial operation date slated for 4Q27
MyBeST	RM1.6b (400MW/1,600MW)	- 4x 100MW/400MWh utility-scale BESS projects - Awarded in Dec 25 - Commercial operation date slated for Apr 28 (15-year PPA)
LSS6	RM6b-7b (2,000MW)	- Bidding to kick off in 1Q26 - Construction to begin in 2027 - Inclusion of BESS for certain packages - Commercial operation date slated for 2028

Source: Infolink, UOB Kay Hian

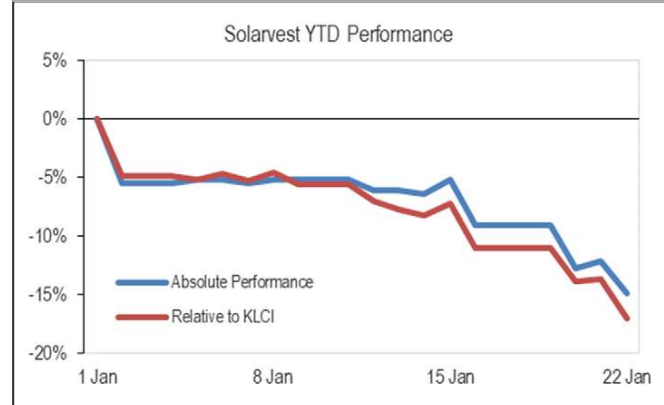
YTD Share Price Performance

Renewable Energy Sector



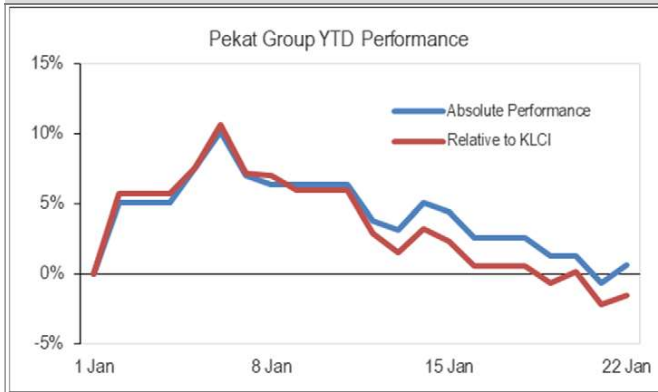
Source: Bloomberg, UOB Kay Hian

Solarvest



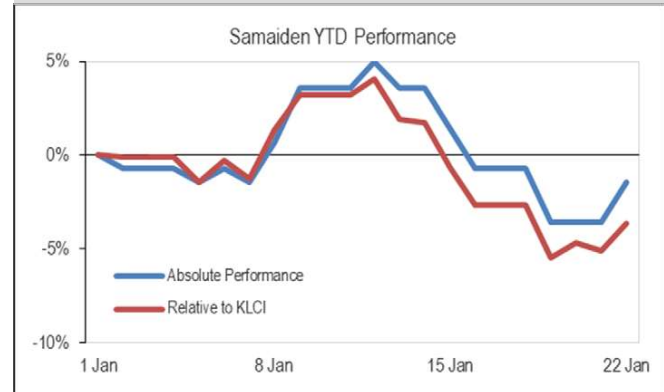
Source: Bloomberg, UOB Kay Hian

Pekati Group



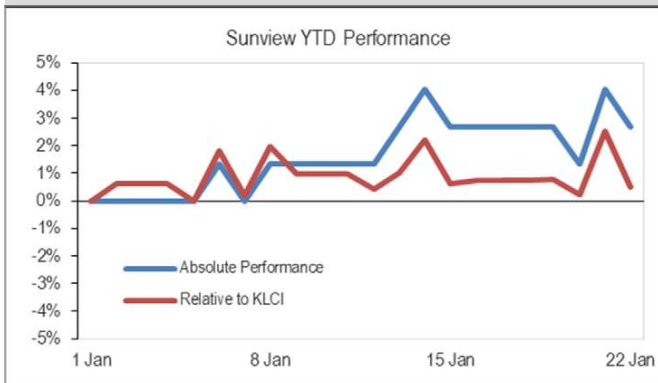
Source: Bloomberg, UOB Kay Hian

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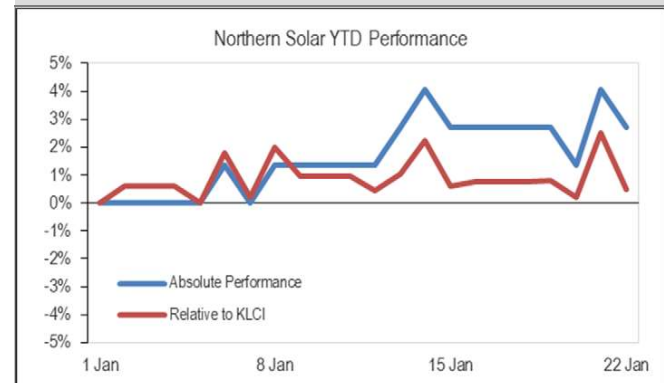
Source: Bloomberg, UOB Kay Hian

Sunview



Source: Bloomberg, UOB Kay Hian

Northern Solar



Source: Bloomberg, UOB Kay Hian

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